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Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

Progress on the Trade Front

With the announcement that the January merchandise trade deficit was somewhat smaller than expected, the financial markets were able to breathe a collective sigh of relief, thankful that another month had passed in which this now closely watched statistic contained few unpleasant surprises. Although the global trade gap did widen slightly compared with the December level and exports fell by ten percent, these developments were largely shrugged off by the markets, which focused instead on the diminished red ink totals with Western Europe and Japan.

The reason for looking at the brighter side of things this time around is straightforward. Narrower U.S. trade deficits with these areas suggest that the dollar's three-year slide against the Continental currencies and the Japanese yen is finally paying big trade dividends—which, if maintained, could mean that a fair degree of dollar stability is not too far away. By itself, this would be a big plus for both lower inflation and interest rates. But, before too much optimism sets in, it should be pointed out that dollar stability will be selective. The widening trade deficits with the newly industrializing countries of East Asia (NICs), as well as Canada, makes further dollar depreciation against such currencies as the New Taiwan dollar and Korean won a good bet if these trade imbalances are to be corrected.

On the surface, the global trade deficit in January seems to be a setback. After two straight months in which the deficit receded, the red-ink total widened to $12.4 billion in January, up from $12.2 billion in December. This was due to a ten percent month-over-month drop in exports, largely aircraft and agricultural commodities, which was only partially offset by a six percent dip in imports. But this reversal could be temporary. For one thing, January is usually a poor exporting month, especially for agricultural products. Although overseas shipments this past January eased by ten percent—the largest monthly percentage decline since a better than 9½ percent drop in January 1987—the fact is that it has been 13 years since the value of export shipments in January was higher than in December.

For another, whereas imports have recorded an average monthly increase of four percent in January compared with December levels since 1980, this time around they dropped six percent, probably a good sign that our voracious appetite for imports is diminishing. Finally, the deficit in manufactured goods—the heart of the trade problem—dipped to $11.7 billion in January, or $1 billion less than in December.

Improvement With Europe and Japan

Although convincing progress has been made in improving the overall U.S. trade accounts, the gains have been particularly striking with Western Europe and Japan. With Western Europe, the deficit dipped to $1.3 billion in January, down from $1.8 billion in January 1987 and well below the more than $3 billion level of January 1986. This partially stems from the emergence of a U.S. trade surplus with the United Kingdom in January, the first monthly black ink total with that country in nearly three years. But it's not only the U.K. with which our trade has improved; if you exclude the deficit with Germany, U.S. trade with the rest of Western Europe was nearly in balance in January.

So, too, the trade deficit with Japan is finally receding. The red ink total with this country dipped to $3.9 billion in January, about $1 billion less than in December, largely due to a sizable downturn in Japanese vehicle exports to the United States. At this level, the bilateral deficit with Japan comprised a shade more than 30 percent of the U.S. trade deficit, down from a 37 percent share in January 1987.

The improved trade performance with Western Europe and Japan should spell better news for the dollar, which might have touched bottom against the Continental currencies and the Japanese yen at the end of last year. Since then, despite widespread predictions to the contrary, the dollar has actually appreciated by about 7½ percent against the Deutschemark and by some five percent versus the yen. To be sure, the dollar's upside potential has to be limited if the trade gains of recent months are not to be reversed, but it may well have stabilized for now especially when you consider that a

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seasonal narrowing of the trade deficit should occur in coming months.

Deterioration With the NICs

If the focus of the trade problem is shifting away from Western Europe and Japan, it is landing squarely in the lap of East Asia, and to a lesser extent, Canada. The trade deficit with the four East Asian NICs–Taiwan, Korea, Hong Kong and Singapore–has ballooned in recent years, as the U.S. appetite for such products as automobiles and pianos from Korea, office equipment from Singapore and textiles from Hong Kong and Taiwan expanded rapidly. The NICs accounted for nearly one quarter of the trade deficit in January, up from one fifth for all of last year, and there does not appear to be any quick fix in sight.

With the U.S. absorbing nearly 50 percent of Taiwan's exports and about 40 percent of Korea's, the U.S. share is simply too big to be reduced quickly without causing significant economic dislocations in these countries. What is more, Taiwan and Korea take pride in their growing global trade surpluses, viewing them as a prerequisite for economic security in the former, and indicative of economic maturity in the latter.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/9/88)	183,054	+ 347	+ 14,538
New York City (3/16/88)	38,656	+ 612	+ 2,484
Commercial Paper (3/16/88)	394,569	+ 4,610	+ 55,297

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/9/88)	291,713	– 1,163	– 938
New York City (3/16/88)	55,150	+ 17	– 9,587

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/9/88)	865,431	– 3,511	+28,708
New York City (3/16/88)	169,491	– 86	–34,697

Financial Markets

	Friday 3/25/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.84%	+ .04	+ .09
180-Day Bills†	6.25	+ .18	+ .42
Longest Bills†	6.76	+ .16	+ .78
Recent Issues:			
7 3/8S 3/31/90 (When Issued)	7.36	NA	
7 7/8S 3/31/92 (When Issued)	7.82	NA	
8 1/8S 2/15/98	8.45	+ .10	
8 7/8S 8/15/17	8.67	+ .06	
Municipals:			
Bond Buyer–20 Bond Index* (3/24/88)	7.89%	+ .14	+ 1.28
Blue List Total ($ Million)	$1,163	– $ 156	–$1,375
30-Day Visible Supply ($ Million)	$1,519	– $1,389	–$3,135
Total	$2,682	– $1,555	–$4,510
Corporates:			
Moody's Aa Composite (3/24/88)	9.69%	+ .14	+ .85
30-Day Visible Supply ($ Million)	$1,925	– $ 143	–$1,034
Stocks:			
Dow-Jones Averages:			
Industrials	1,978.95	– 108.42	–279.71
Transportation	860.96	– 18.22	– 74.36
Utilities	173.07	– 7.64	– 43.48
65 Stocks	749.35	– 32.88	–106.19
N.Y.S.E. Composite Index	146.58	– 6.07	– 18.73
N.Y.S.E. Avg. Daily Vol. for Week (000's)	158,092	– 17,608	–12,390

*34% Taxable equivalent 11.95%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/25/88	Week Ago
Overnight	6.42%	6.31%
1 month	6.69	6.63
3 month	6.75	6.69
6 month	7.00	6.88
1 year	7.38	7.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	9.18%	9.18%
Long Term (10 yrs.)	10.12	10.12

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/25/88)	Currency Per U.S. $	Week Ago
Canada	1.2430	1.2488
France	5.7040	5.7480
Germany	1.6800	1.6920
Italy	1244.00	1253.00
Japan	125.85	128.37
Mexico	2273.00	2273.00
Switzerland	1.3909	1.4020
U.K.*	1.8292	1.8253

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (3/25/88) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	–0.3%	–3.0%

But, however reluctant the NICs may be to alter either trade policies or exchange rates, change is on the way. Due to persistent U.S. prodding, not to mention rising protectionist sentiment in the United States, both Taiwan and Korea have shown greater flexibility on the exchange rate issue. They have loosened the formerly tight linkage between their currencies and the dollar and, in so doing, set the stage for a good-sized appreciation of their currencies. Since the end of 1986, the New Taiwan dollar has advanced by nearly 20 percent against the U.S. dollar, while the Korean won has risen by some 13 percent. And, there is more to come; with Taiwan and Korea continuing to post large, and growing current account surpluses, maintenance of even present exchange rates is simply incompatible with the goal of narrowing existing global payments imbalances.

Finally, our neighbor to the north will not escape the full court press now underway to bring about a smaller U.S. trade deficit. The Canadian currency is trading at a four-year high against the dollar, and has recently moved higher still—a trend which was given an added boost when it was announced that the U.S. trade deficit with Canada widened in January. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/23/88	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	222.022	– 2.010	+18.914
Loans to Depository Inst.	2.537	+ 1.226	+ 1.984
Float	.455	–0–	+ .082
Total Reserve Bank Credit	239.723	– .982	+18.627
Treasury Deposits with Federal Reserve Banks	2.676	– .633	– .189
Currency in Circulation	225.695	– .010	+18.396
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	225.159	- 1.841	+57.195
	3/16/88		
Member Bank Reserves:			
Total Reserves Held	57.852	+ .615	+ 1.989
Excess (Deficiency)	.985	- + .006	+ .004
Net Free Reserves	.746	+ .049	+ .030

Monetary Aggregates †		% Change Since 3 Months Ago*‡	% Change Since Year Ago**
M1 (3/14/88)	760.5	+ 3.9	+ 3.9
M2 (3/14/88)	2,965.5	+ 7.6	+ 4.2
M3 (3/14/88)	3,740.3	+ 7.5	+ 5.5
Domestic Nonfinancial Debt (3rd Q'87)	8,139.1	+ 7.6	+ 10.0

† Seasonally adjusted.
‡ Four-week moving average.
* Seasonally adjusted annual rate.
** Based on monthly data.

New York Money Market

Offering Rates 3/25/88	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.77%	6.02%	6.37%
* Federal Agencies	6.45	6.50	6.60
* Municipal Notes—High Grade (34% Taxable Equivalent)	6.74	6.82	6.82
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	6.62	6.85	7.25

‡Finance Company Paper—Prime

5- 14 days	6.40%
15- 29 days	6.48
30- 59 days	6.55
60- 89 days	6.58
90-179 days	6.62
180-239 days	6.50
240-270 days	6.50

‡* Bankers' Acceptances

Apr.	6.50%
May	6.50
Jun.	6.53
Jul.	6.55
Aug.	6.60
Sep.	6.60

‡Industrial Paper—Prime

30- 89 days	6.58%
90-120 days	6.63

†Federal Funds Effective Rate 6.60%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'87	$ 4,507r	$ 4,524	$ 4,288
Gross National Product (1982 Dollars)*	4th Q'87	$ 3,881r	$ 3,836	$ 3,732
Percent Change, Annual Rate	4th Q'87	4.8r	4.3	1.5
Change in Consumer Prices*	Feb '88n	2.4%	3.6%	4.8%
Change in Producer Prices*	Feb '88	– 2.4%	4.8%	2.4%
Civilian Employment (Thousands of Persons) †	Feb '88	114,409	114,129	111,344
Unemployment as % of Civilian Labor Force†	Feb '88	5.7%	5.8%	6.6%
Personal Income*	Feb '88n	$ 3,914	$ 3,880	$ 3,671
Leading Indicators Composite Index (1967=100)†	Jan '88	190.2	191.3	185.5
Industrial Production Index (1977=100) †	Feb '88n	134.4	134.2r	127.1
Net Change in Consumer Installment Credit †	Jan '88	$ 5.42	$ 3.98	$ 0.79
U.S. Merchandise Trade Balance	Jan '88n	–$ 12.44	–$ 12.20	–$ 11.94
Plant and Equipment Expenditures*	1st Q'88	$427.97(a)	$417.25(a)	$374.23
Private Housing Starts (Thousands of Units)*	Feb '88n	1,494	1,372r	1,809
New Construction Expenditures*	Jan '88	$ 395.2	$ 406.8	$ 384.7
Total Business Inventories †	Jan '88n	$ 705.9	$ 702.9r	$ 659.2r
Total Business Sales †	Jan '88n	$ 462.8	$ 466.1r	$ 425.0r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

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